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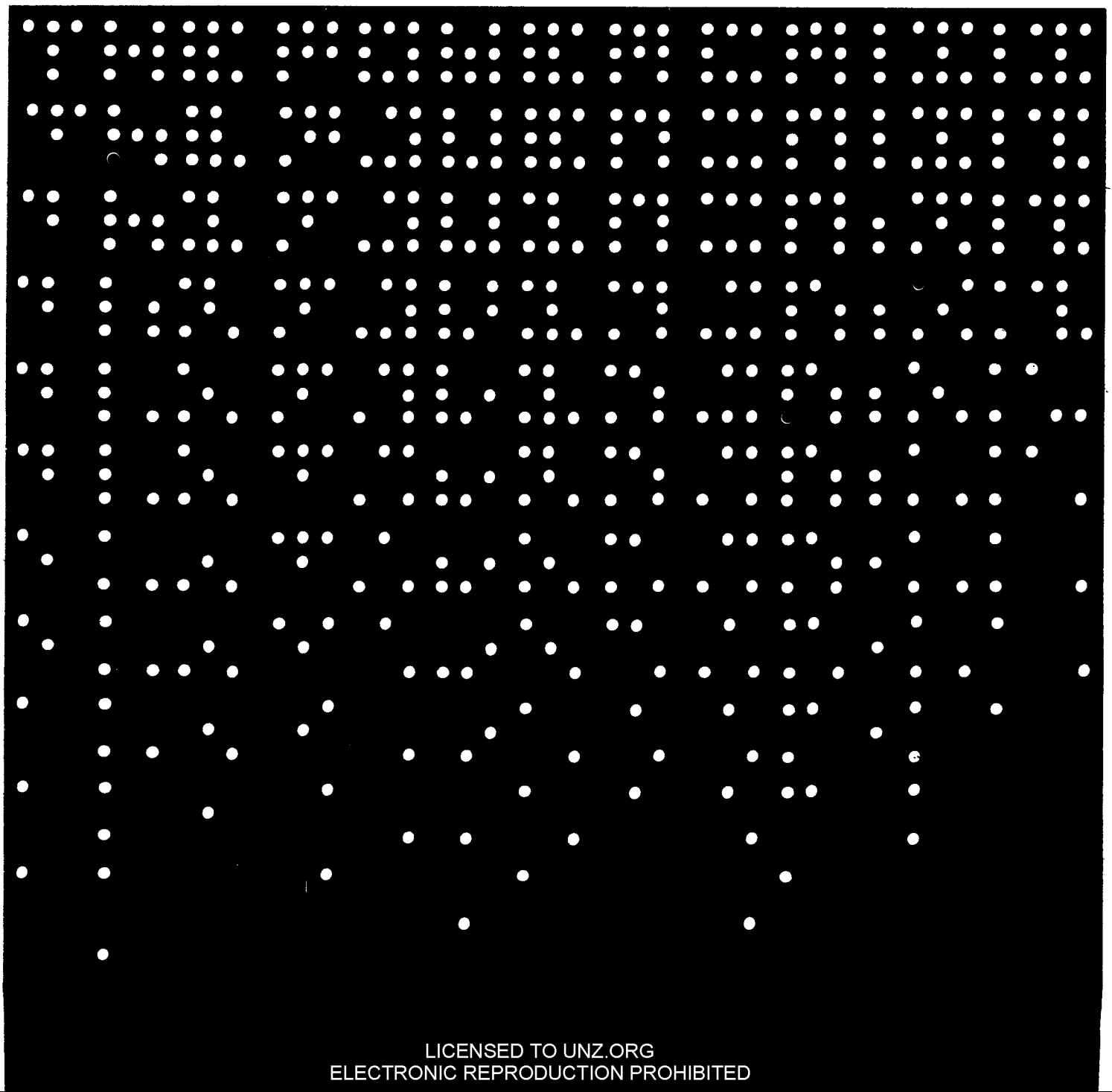
the power crisis

Robert Poole, Jr.



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ELECTRONIC REPRODUCTION PROHIBITED

"The number one problem facing electric utilities in the cold months ahead is getting adequate supplies of coal, oil, and natural gas," states David S. Freeman, director of the White House Energy Policy Staff.[1]

"No homes are going to be without gas or fuel," pledges Paul McCracken, chairman of the President's Council of Economic Advisors.[2]

"Fuel oil and coal rationing and price controls were urged by the American Public Power Association in a letter to President Nixon last week. Alex Radin, general manager of the association . . . also called for antitrust action against the 'concentration of ownership of competing fuels' and suggested an embargo on coal exports."[3]

As blackouts and brownouts occur with increasing regularity, as fuel prices suddenly shoot skyward, as winter takes its toll of the poor and aged who cannot heat their homes because there is no fuel - it is small comfort to listen to the anxious promises of bureaucrats and the strident demands of lobbyists for price controls, rationing, and other forms of coercive intervention. One does not look to political rhetoric for explanations or analysis; to determine the source of the power crisis requires an inquiry into the economic and political context of the market for power and for its ultimate source, fuel.

A major theorem of free-market analysis is that coercive interventions in the marketplace- whether by restrictions on supply, demand, or prices - inevitably produce shortages and/or surpluses. This is so because in the dynamic process of price-determination, supply and demand are continually readjusted so as to be in balance at the free-market price. When government interferes with part of this process, the remainder continues to operate as if conditions were normal. If the government enforces a price ceiling on a product, demand for the product will still be a function of its price, but because of the artificially low price, consumption will increase. Unless the fixed price is fixed high enough to afford the producer a good profit, he will have little incentive to expand. Hence, a shortage of the product will develop. In the same fashion, price floors (e.g. farm price supports) tend to produce surpluses.

The power crisis now facing this country consists in a peculiarly interlocked group of shortages, not only of electrical generating capacity but also of every major fuel supply. Behind these shortages lies a system of controls and interventions which not only have failed individually to achieve their intended purposes but have also worked at cross-purposes with one another. In short, if one wished to wreak havoc in the field of power generation, it would be difficult to design a system that would succeed better than the current patchwork of interventions.

The ultimate source of power - whether for heating or for electricity - is fuel. The four primary types of fuel in use today are coal, oil, natural gas, and uranium (for nuclear power plants). Nuclear power plants provide less than 1% of the nation's total electricity and there is no shortage (at present) of uranium; for a variety of reasons, however, a number of nuclear power plants which were expected to be in operation by this time have been delayed, often by several years. Thus, although the delay in nuclear plants contributes to the power shortage, it is not in itself a part of the fuel shortage. It has contributed to the problem because electric utility officials, not anticipating the delays, were counting on the increased nuclear capacity and, consequently, did not pay sufficient attention to assuring adequate supplies of coal, oil, and gas for the current season. The major shortages of these three fuels are being blamed by the utility companies.

The causes are more complex than that, however, as an examination of the fuel market demonstrates. In recent years, both because of anti-pollution regulations and because of its relatively low cost, clean-burning natural gas has become an increasingly popular fuel. In order to protect consumers from the perils of capitalism, however, the Federal Power Commission (FPC) regulates natural gas pricing. In the 1950's the FPC made a vain attempt to regulate individual producers, on a case-by-case basis. Even the federal bureaucracy recognizes some limits on the amount of paperwork which can possibly be handled; therefore, in the 60's, the Commission switched to regulation by geographical area. Even so, the injection of politics into the pricing process resulted in an administrative nightmare. The critierion for setting prices was supposed to be based, not on what the consumer's demand indicated (the market price), but rather on what the political process determined was a "fair" return for the producer, regardless of demand. As a political process, the rate decisions were often challenged in court by one faction or another, who differed on the definition of "fair". The court cases often took several years, and when a previously-set price was eventually ruled "excessive", the producer was ordered to pay huge refunds.

The combined effect of lower-than-market prices and the continual threat of court-ordered refunds, needless to say, has had a powerful disincentive effect on the producers' desire to explore and develop new sources of natural gas. At the same time, the lower-than-market prices provided a strong stimulus to demand for natural gas, since as time went on it became a relatively cheaper and cheaper fuel. The final straw was provided by the money market of 1969 and 1970; with interest rates at 9 and 10%, gas producers could frequently earn a much better return on their money by investing it, rather than spending it on bringing in new sources of gas. Thus, fall and winter of 1970 found many of the pipeline companies and utilities unable to buy sufficient gas from the producers - the latter simply were not producing at the old fixed price. It should be pointed out that as of now there is no actual shortage of natural gas supplies; known reserves (i.e., neglecting all probable but unconfirmed sources) are sufficient for many years. It is just that there is no reason for producers to bring it to market at current prices.

The FPC is finally beginning to bestir itself and admit that something is wrong with its position; it has cautiously proposed exempting small producers from price regulation and has talked about granting large producers a 5 cent per 1000 cu. ft. increase (on new-well gas only). Industry economists estimate that the free-market price would currently be about 10 cents above the current average price of 40 cents per 1000 cu. ft. Thus, the FPC's moves are only a minor step, applying to only a fraction of the market; further, they leave unchanged the basic principle that the government, rather than the market, should determine the price. In that, the Commission only invites further shortages. Pipeline companies are taking what few steps they can to obtain more gas.

Several are planning to import liquified natural gas (LNG) from Algeria and Venezuela, although the first small amounts will not be available until late 1971. The price of the imported LNG is expected to be between 65 and 70 cents per 1000 cu. ft. - another indication of how far out of line the current 40 cents price is. Pipeline and utility companies presumably have enough demand for gas to be willing to pay such a price by next winter. If the past is any guide, the shortages will probably be worse by then.

Oil production is probably more entangled in politics than any other industry. Although a complete analysis is beyond the scope of this article, the salient points concerning regulation of supply and pricing can be summarized briefly. The U.S. oil market is divided between the thirty "majors" - large international oil producers - and some 15,000 "independents" - small and medium-sized domestic producers. The federal government controls the market by setting oil import quotas and regulating interstate oil shipments, while the state governments set monthly production quotas. With this type of politico-economic structure, the lobbying aims of the majors and the independents are somewhat different. The majors tend to oppose import quotas and assistance to Israel; they have a stake in Arab oil and want to ensure that they can continue to obtain it and sell it in the U.S. The independents, by contrast, "count amongst Israel's best friends . . . and they are careful always to advocate a policy which will prevent the flow of Arab oil from endangering their industry, wealth, and future."[4] They consequently favor strict import quotas.

The President's Task Force on Oil Imports found that import quotas, by restricting imports to 12½% of U.S. consumption, drive up the price of oil from a free-market level of $2.24 per barrel to about $3.90 per barrel.[5] Put another way, the Task Force estimated that American consumers last year paid about $5 billion more for oil products than they would have in the absence of import restrictions.[6] Thus, the widespread complaints by users - both individual consumers and utilities - about the high price of oil supplies, is largely a result of the quota system. In addition, the state regulatory agencies, such as the Texas Railroad Commission, set monthly oil production quotas for the industry, at a certain percentage of the wells' maximum production rate (e.g., for September 1969 the Texas quota was set at 3,354,696 barrels per day - 53.7% of the wells' ability to produce). The effect of such quotas (another cozy arrangement between the government and the producers) is to restrict the supply in order to support the artifically high price level. The quotas thereby prevent "destructive competition" between producers, in response to the high demand by consumers and utilities.

Once more, the regulations contribute to the non-market high price and short supply. There is an abundance of oil, both in the U.S. and abroad (not only in the Middle East but also in Canada, Latin America, Indonesia, etc.) Foreign oil prices are generally about half of U.S. prices and are generally trending downward*, while U.S. prices continue to increase. It is massive political interference with the market that gives the illusion of shortages to the U.S. consumer.

The final major fuel is coal. Historically, coal has been the cheap-and-dirty fuel that was always around in sufficient supply to take up the slack when oil or gas was in short supply. Several years ago, the utilities took coal so much for granted, as they counted on increased nuclear generating capacity (which did not materialize), that they neglected to make long-term commitments to assure a sufficient reserve of coal. Meanwhile, Japan's booming economy resulted in a huge demand (and consequently a high willingness to pay) for coal, which Japanese firms secured via long-term contracts with U.S. producers. As a result, all across the U.S., coal stockpiles are dwindling. The TVA, which normally maintains a 75 to 90-day stockpile, was down to 25 days last winter and 11 days worth this winter. Many utilities and other firms are fearful of having to shut down completely for lack of coal.

Actually, the coal shortage would be nowhere near as severe were it not for the Interstate Commerce Commission. For in fact, as with natural gas, there is actually enough coal to go around, if only it could be delivered to the users fast enough. Nearly all coal is shipped by rail in hopper cars. Years ago the railroads worked out extensive contractual agreements allowing interchange of cars between railroads; it is so much more convenient for railroads to accept and transport loaded cars from connecting railroads (rather than transferring the load to one of their own cars) that they are willing to pay a daily charge to the owning railroad for each day's use of its cars. The value of this privilege fluctuates over time, depending on the demand for freight cars in a particular region; however, the ICC, in order to prevent "profiteering", fixes the price - called the demurrage charge - and seldom changes it.

For the past several years the demurrage charge has been far below the market level for hopper cars, and as a result, severe shortage of hoppers have developed in parts of the country. Railroads near ports serving the export market gladly paid the low price for hanging onto a large supply of other roads' cars - and their owners were powerless to change things. Only in October 1970 did the ICC finally wake up to the reality of the coal shortage - at which point it abruptly doubled the demurrage charge. (So much for the chaotic free market vs. orderly government control.)

*As this is written, the foreign oil price is temporarily inflated by the tanker shortage caused by the Middle East war. This is only a minor exception to the general trend, although it does exacerbate the current supply problems.

Thus, in the case of every major fuel the picture is much the same; apparent shortages exist primarily because of government interference in the market. In the face of such evidence, the response of politicians and statist lobbyists can be seen for the power-seeking demagoguery that it really is. Senator Philip Hart recently asked the Federal Trade Commission to investigate the gas producers' request for higher prices, charging that producers are "withholding" gas supplies! Of course they are, as the preceding analysis has pointed out—the producers exist to make a profit, not to sacrifice themselves by producing at below-market rates. The American Public Power Association - a lobby group representing 1400 government-owned utilities - has called for price controls, rationing, an embargo on exports, and antitrust action against fuel producers - all in the name of solving the problem brought about by such interventions. Some people just do not learn!

The actual solution should be clear from the foregoing analysis. The market mechanism must be allowed to regain control of fuel pricing; otherwise, the shortages of the last few years will continue to intensify, especially if shortsighted cures such as rationing and price-controls are enacted. But beyond the fuel market, what might be said of the utilities, whose incredible lack of planning and foresight has certainly contributed its share to the present crisis?

The sad fact is that the electric utilities constitute one of those uniquely American hybrids: franchised private enterprise (which translates as monopoly, pure and simple). Conventional wisdom holds that utilities are natural monopolies, and that for this reason they should be either government-owned or government-regulated. Yet this contention is a gross oversimplification, as a number of economists have recently pointed out. As Stigler and Friedland put it, "the individual utility system is not possessed of any large amount of long run monopoly power. It faces the competition of other energy sources in a large proportion of its product's uses, and it faces the competition of other utility systems, to which in the long run its industrial (and hence many of its domestic) users may move."[7]

The first of these points can be illustrated by the growth of total energy systems in shopping centers, schools, and apartment buildings. In such systems, natural gas or kerosene is used to power a gas turbine generator which produces the building's electricity on-site; the exhaust heat is recycled and used to provide heating or air conditioning, depending on the season of the year. Such systems are directly competitive with commercial electric power in many parts of the country.[8] Competition between two electric utility systems (the second point above) is quite conceivable, much as there used to be between telephone companies before government franchises became the rule. Manis has described such a case, as follows:

> Companies may send representatives to selected adjacent areas served by competitiors. If they could offer better service and/or prices, they could get residents to sign contracts agreeing to take their service for a period of time at stipulated prices if the company builds into the area and offers the service. They can go to the existing company and indicate that they have the contracts and intend to provide service. It will then pay the existing firm to sell their equipment in the area and make something on it, rather than have it become completely useless. This could also be done by individuals without an existing company.[9]

Thus, it is perfectly feasible to have competition in providing electricity or any other utility service, thereby making regulatory rate-setting commissions unnecessary. Those who argue for government regulation of utilities are quick to conjure up straw-man pictures of evil capitalists, but slow to admit the hidden costs of the monopolies such regulation fosters. An article in Fortune recently described the electric utility industry as "clumsy" and "sluggish" and stated categorically that "utility executives are generally unimaginative men, grown complacent on private monopoly and regulated profits."[10] Despite being the biggest industry in the U.S., with assets of over $75 billion, and net income of over $3 billion, the electric power industry spends less than one-quarter of one percent on research and development.[11] Small wonder, then, that it failed to forecast the current demand for service, the technical problems of nuclear power development, the current fuel shortages, and the growing concern over pollution.

When profits are not guaranteed by public regulatory commissions, but must be earned by good service, companies have a large incentive to forecast correctly, to innovate, and to invest in R & D. Similarly, when the fuel market is unrestricted by coercive price controls and import/export restrictions, the free operation of the price system provides vital feedback on the state of the market for energy sources - allowing long-term decisions to be made accurately. The dead hand of regulation is a death-grip for any industry, and the sooner the fuel and electric power industries shake it off, the better off (and warmer) we'll all be.

1. *BUSINESS WEEK*, Oct. 3, 1970, p. 14.
2. *LOS ANGELES TIMES*, Oct. 11, 1970, p. H-1.
3. *CHEMICAL AND ENGINEERING NEWS*, Sept. 7, 1970, p. 17.
4. *SURVIVAL*, Vol. XII, No. 6, June 1970, p. 202 (Published by the Institute for Strategic Studies, London)
5. *SANTA BARBARA NEWS-PRESS*, August 9, 1970.
6. *Ibid*, Sept. 13, 1970.
7. *JOURNAL OF LAW AND ECONOMICS*, Vol. V, Oct. 1962, pp. 11-12.
8. Poole, Robert, "A Feasibility Study of Future Domestic Power Systems," BS Thesis, MIT Dept. of Mechanical Engineering, Cambridge, Mass. June, 1966, pp. 14-15.
9. Manis, Rod, "Monopoly," (unpublished).
10. Quoted in *SCIENCE*, Vol. 168, 26 June, 1970, p. 1556.
11. *Ibid*, p. 1558.

International Broadcasters' Society, Postfach 128, Bussum (NH) Holland, 1968; Third edition, 1969. X+213 pp.; $2.95 from the publisher

Since 1958, offshore "pirate" radio stations have competed with State-controlled facilities, much to the latter's discomfort. This book chronicles their operations through spring of 1969, concentrating on installations directed at the British market from 1964 through 1967, the period of greatest activity.

In 1958, Ib Fogh, a Danish silverware merchant, set up what was probably the first "pirate" radio station in international waters near Copenhagen. Called Radio Merkur (Radio Mercury), the station was a 109-ton vessel (identified by Harris as the *Lucky Star,* although the two contemporary accounts I have gave the name as *Cheetah*) registered in Panama and was clearly audible, though imperfectly, in both Copenhagen and southern Sweden. Merkur became an immediate commercial success, yet Danish government pressure induced Panama to revoke the ship's registration, and, in 1962, the ship was boarded and silenced by Danish naval and police forces in the wake of an on-board murder.

Meanwhile, in April of 1960, Radio Veronica began broadcasting in Dutch from the converted German lightship *Borkum Riff.* Except for experimental English-language broadcasts in February and March of 1961 (abandoned due to lack of either sufficient power to effectively reach Britain or capital to acquire new equipment), it has since broadcast to Holland alone, moving to the vessel *Veronica II* in 1964, and is, at last report, the only European offshore station.

In 1961, attracted by Radio Merkur's prosperity, American-financed Radio Nord (Radio North) set up shop near Stockholm on the converted German freighter *Bonjour,* taping its programs on land and ferrying them out to the ship. Within a year, though, the Swedish authorities halted the process, and Radio Nord left the air.

Information on Radio Syd (operated by Britt Wadner, a former Miss Sweden, near Malmö in that country) is harder to come by. One account concerning the operation lists it and Radio Nord as dating from 1956 (but the latter is well-known, from many sources, as having started in 1958). Harris cites Radio Syd as predating Radio Merkur by less than a year, without giving exact dates, but other sources indicate that Fogh was first by a few months. In any case, Syd survived the harrassment that shut down Radio Nord at least until 1966, (although Miss Wadner spent a few months in jail), and may have been on the air as recently as late 1968 or early 1969.

Harris reports the existence of no less than seven other "pirate" stations prior to 1964, but does not name or locate them. I have been unable to find any record of their activities. An addendum on non-British-oriented operations would be a useful supplement to any future edition of this book, inasmuch as no other reporter seems to be covering that area.

The "Golden Age" of offshore radio dates from Easter of 1964, when Radio Caroline went on the air. Run by 23-year-old Ronan O'Rahilly, an Irishman, it was based aboard the converted Danish ferry *Frederica* (renamed *Caroline* after President Kennedy's daughter) which had been specially outfitted in the Irish port of Greenore, owned by O'Rahilly's father. It narrowly beat out Alan Crawford's Radio Atlanta (aboard the ship *Mi Am Amigo,* formerly the base of Radio Nord, which had been refitted in Galveston, Texas). In the months immediately preceding the inauguration of broadcasting by both ships, a mutual-assistance pact between O'Rahilly and Crawford had been marked by a number of double-crosses, and, by the end, feelings were running high. In July, however, a merger was arranged, and the *Caroline* moved to a position off the Isle of Man to serve northern Britain as Radio Caroline North, while the *Mi Amigo* became Radio Caroline South.

erwin strauss

WHEN PIRATES RULED THE WAVES (a review)

The first (though by no means the last) element of farce in the offshore radio situation was introduced on May 27th, just 18 days after the premiere broadcast of Radio Atlanta. David "Screaming Lord" Sutch, a pop singer and former plumber, set sail for the high seas in the 60-foot fishing trawler *Cornucopia* attired in a purple cape, blue tights, and a cutlass, while the Jolly Roger, a banner reading "Radio Sutch," and four men in leopard skins hung from the rigging. The broadcasting equipment aboard was transferred to a platform on stilts (an abandoned anti-aircraft installation from World War II) in the Thames Estuary, near London. All of this publicity was to no avail, however, and "Lord" Sutch sold out in September for five thousand pounds to his manager, Reginald "Uncle Reg" Calvert, who renamed the operation "Radio City."

In June, following Sutch's lead, three gentlemen named Pepper, Evans, and Thompson set up "Radio Invicta" on another abandoned Thames tower. Pepper cut his two partners out shortly thereafter, and a couple of unpleasant incidents followed: the station's fuel tanks were smashed, and Evans' car's tires were slashed. In December, Pepper and two companions drowned; apparently the shuttle boat to the station capsized in a sudden squall, although there were rumors of foul play. Immediately, Evans repossesed the station, reopening it with greatly increased power, first under the name of King Radio (he was the "king"), and then as Radio 390 (its wavelength was 390 meters).

Next on the scene was Radio London, operating from the *Galaxy*, formerly a U.S. *minesweeper*. Like Radio Nord, it was American-backed, and featured slick, American-style Top-40. Radio London quickly secured a place as one of the leading broadcasters.

Now the scent of profit was strong, and all manner of amateurs tried to get into the act. Radio Red Nose, Radio Lambay, Radio Shannon, and Radio North Sea were heard over fairly wide areas for at least brief periods, and there were rumors and unconfirmed reception reports concerning a large number of other operators. Most vanished without a trace. The most spectacular failure was Radio Noordzee, a Dutch radio and television station broadcasting from an offshore platform six miles from the coast of Holland, which was boarded and shut down by Dutch forces in December, after three months on the air.

The only notable station started in 1965 was Radio Essex, based on yet another Thames tower, which inaugurated broadcasting in September of that year using a 25-watt transmitter built by the owner, a former British Army major named Paddy Roy Bates, who later increased the power to 1.75 kilowatts. When his tower was ruled to be within British territorial waters at the end of 1966, Bates moved to another tower, farther out, which he proceeded to proclaim as the independent Principality of Sealand, with himself as Prince. As of last report, the tower had been held repeatedly by British courts to be outside their jurisdiction, although no attempt has been made to broadcast from it.

At about the same time as the suppression of Radio Noordzee, Radio Scotland came on the air from the former Irish lightship *Comet* anchored in the Firth of Forth. In spite of a history of technical trouble and frequent changes of location, it remained a fixture of the radio scene in northern Britain until August of 1967.

In June of 1966, an innovation in offshore radio appeared: the converted liberty ship *Olga Patricia* (renamed *Laissez Faire*) started operations boasting two complete, separate radio stations on the same vessel. Radio England featured the by-then-familiar Top-40 sound, and Britain Radio had what is called in the U.S. an "Easy Listening" format. This installation was backed by Americans who said that their main interest was in getting a license to operate conventional, land-based commercial stations in the United Kingdom, a motivation shared by a number of owners and disc jockeys of offshore stations.

On June 9th of 1966, the last of the major "pirates" commenced broadcasting: Radio 270, based on the converted Dutch lugger *Oceaan 7*. Compared to the more than $4 million spent on the *Laissez Faire, Oceaan 7* was a bargain basement outfit costing barely $200,000, yet it easily established itself as a power in northern Britain.

Up to this point, Her Majesty's government had reacted with apathy. Much political rhetoric was bandied about against or in favor of the "pirates," but neither the incumbent Laborites nor the aspiring Tories seemed especially anxious to take any overt action that might antagonize either side of the dispute. When one politician or another, bolder than the ordinary, asked why nothing had been done about the situation, he was shunted from Bureau to Office to Ministry, each claiming that the offshore stations were not *their* problem. There had been a number of "scandals" from time to time that looked as though the they might jolt the Government into action (notably the drowning of Pepper), along with several near misses, but the flurries had always died down after a while. Finally, as was almost inevitable, there came the straw that broke the camel's back.

Oliver Smedley (another retired British Army major, and founder of Radio Atlanta) was involved in negotiations (on behalf of Radio Caroline, of which he was a major stockholder as a result of the merger between Atlanta and Caroline) with Reginald Calvert of Radio City concerning some of the latter's equipment. Suspecting that Calvert was dealing behind his back with American interests about the same gear, Smedley hired ten men and a woman to board and seize the Radio City tower as "insurance." Such boardings weren't unknown in the annals of offshore radio, and usually ended amicably, but, for some reason, "Uncle Reg" took exceptional offense at Smedley's action. He went to the Major's onshore home late one night in a rage, smashed some furnishings, and grabbed the housekeeper, threatening to kill her with a bronze statuette. Smedley killed him with one blast from a shotgun.

Government wheels began to turn. Two "pirate" station were on towers that were clearly within the three-mile limit, and court orders shutting them down were easily obtained. There was some argument concerning the Radio Essex tower, and that of Radio 390, which were more than three miles from the nearest point of land exposed at mean low water. Under international law, an area of water may be considered a "bay" (and hence the same as land for purposes of computing the three mile limit) if a straight line drawn between two points on the coast of a country encloses, together with the land, a larger area of water than the area of a semi-circle having that line (called a "baseline") as its diameter. By this rather involved standard, a baseline was drawn passing just within three miles of the towers, enclosing less than one percent more water than the area of the semicircle involved.

Dealing with the stations based on *bona fide* ships was not so simple. Finally, a law was passed making it illegal for any British subject or alien

resident to work for, supply, or buy air time from "pirate" broadcasters. Once it seemed assured that most of the "pirates" would be off the air before the next election, so that the Tories didn't expect to have to worry about ever being called on to deal with the situation, they came out strongly in favor of continued offshore broadcasting, even going so far as to buy political commercials on some. Tories in the House of Lords, where they were a majority, delayed the effective date of the anti-"pirate" legislation as long as possible. It finally became law at 12:01 a.m. on the morning of August 15, 1967, in spite of heavy mail to Members of Parliament (the heaviest ever received on any issue) evoked by massive advertising campaigns by the offshore broadcasters.

Most of the broadcasters shut down at or before the dealine set by the law. Dawn on August 15th saw only Radio Caroline and Radio Veronica on the air. Radio Caroline carried on using mostly non-British personnel, and supplies ferried in from Holland. At first it ran in the red, but then it found new sources of advertising revenue. At least part of the new advertising was from outside the United Kingdom, and thus strictly legal. Radio Caroline continued, however, to broadcast commercials for British concerns, and, although all manufacturers of advertised products claimed that the commercials were unauthorized, it seems likely that at least some were being paid for and hidden in the truly unsolicited announcements. By early in 1968, the operation was once again running in the black. However, the insurance examiners had ruled that the *Mi Amigo* and the *Caroline* needed extensive repairs, for which the owners had no funds, and so a Dutch salvage firm that had liens on the vessels seized both of them simultaneously on March 3rd, and towed them into port, leaving Radio Veronica alone on the air.
In May of 1968, Mr. Richard J. King published an appeal for funds to buy *Oceaan 7* and re-establish English-language offshore radio. About a year later, apparently unsuccessful, King distributed a brochure advertising a more ambitious paln for offshore operations in the North Sea. At last report, nothing has come of this activity, either, and offshore radio remains as it was in March of 1968.

What lessons do these episodes have to offer libertarians? Several, I think. In the matter of tactics, it's worth noting that no attempt has ever been made to prosecute people for *listening* to "pirate" radio, even though tuning in is clearly illegal in the United Kingdom under the Wireless Telegraphy Act of 1949. Occasional threats along these lines were made by minor officials, who pointed out that the license fee that radio owners there pay annually (which goes to support the BBC) "authorizes" radio owners only to listen to "official" stations; but no serious action was taken. This might be stated as a general principle: no action that is engaged in by a large portion of the population under a government's control (assuming that the fact of such widespread action is beyond dispute) will be regarded as "criminal," regardless of how loudly it may be denounced from pulpit, bench, and soapbox, or whether it is technically illegal.

As an example, consider prostitution. While the prostitute is hounded her clients are usually left alone. Or Prohibition, during which no serious stigma, legal or otherwise, was attached to patronizing a bootlegger or speakeasy, even when these suppliers of liquor were undergoing their frequent harassment by the police.

Why is this so? I think an explanation can be found in the psychology of rulers, be they absolute monarchs or petty bureaucrats. They see themselves as stalwart protectors, standing selflessly alone (in the best "High Noon" tradition) between the (often nonexistent) "Silent Majority" and a "tiny minority." Classifying people engaged in any kind of activity as "wolves" to be hunted down requires that those in power believe them to be small in numbers. If a sufficiently large portion of the public participates in such an activity, it will not be treated as truly criminal, even if it has been so thought of in the past.

A good example of the latter is the case of marijuana in recent years. In the past anyone who had anything to do with growing, processing, shipping, selling, or using it was labeled a "dope fiend," and subjected to heavy penalties if convicted. As its use has become widespread, however, we have seen a trend to lesser penalties for users and "small time" dealers, and harsher ones for "big operators." As more and more people use marijuana, it becomes more difficult to credibly think of them as "enemies of the State." Yet this very increase makes the "drug menace" all the worse, and hence the stiffer laws against those who *can* still be stigmatized as "Corrupters of the Nation's Youth."

All of this tends to lend support to the educationist viewpoint among libertarians: if this principle holds, then increasing acceptance of libertarian positions that involve violations of the law (draft refusal, tax resistance, etc.) would gradually reduce the vigor of official persecution of such violators. This sort of causal relation reflects that fact that (for all of the gerrymandering, malapportionment, lying, corruption, etc., that goes on) the United States and Great Britain basically have government that represent the wishes of most of their people, and, if most of these people support a position for an extended period of time, that position will eventually be reflected in the government's stand. On the other hand, there are a number of contrary

forces at work, and the possible necessity of violence at some point on the road to the Libertarian Millenium shouldn't be summarily rejected.

The saga of the "pirates" has something to say about what the world might be like without coercive States, as well. It's an excellent example to show non-libertarian friends of how the free market can satisfy human desires better than the State, even in one of the areas areas, broadcasting, that most people think of as having the greatest need for government "regulation."

The saga, on the other hand, should serve as a cautionary note to those who stress "smashing the state" as the means to freedom. The state is not people, nor is it buildings, nor least of all a scrap of paper called a "Constitution"; it is a state of mind. If a group of people escape the effective jurisdiction of any government (either by destroying the one that rules them, or, as in the case of the "pirates," moving beyond its reach), but continue to think in the old patterns, the same evils will crop up, just as a weed regrows from the roots if the top is cut off. As long as people believe that the only bad result to be feared from practicing coercion is the retribution of the State (i.e., "the only crime is getting caught"), then as soon as the spectre of "The Law" is removed they will cheerfully set about committing all manner of coercive acts against their competitors, and will be genuinely surprised when their actions boomerang on them. There were at least five deaths in connection with offshore broadcasting in the period studied by Harris (ranging from fairly clear-cut murder to circumstances that might be described as "mysterious"), not to mention various acts of vandalism, armed invasion, and the like. It is a fairly simply matter to torpedo a ship or dynamite a tower's supports, and it seems quite possible that (had the governments not shut down most of the "pirates," and had the broadcasters not reached some sort of an accommodation among themselves) they might have disposed of each other at no expense to the state.

But the picture is not entirely bleak. In most new industries, a few pioneers establish the workability of a basic idea, then a large number of competitors jump in, and finally a shakeout takes place, after which the more competent operators share most of the market, and their competitors either get out of the business or accept smaller roles. This is the normal working of the free market, and there were signs that just such a shakeout was coming in offshore radio. Now we'll never know what would have happened, which is perhaps one of the greater pities of the situation.

Although competition for frequency space never got to be a serious problem, as more stations came on the air, and as older ones stepped up their power, trouble in this area was brewing. It would have been interesting to see how this situation would have been handled. In this case there is also an analagous situation to draw inferences from: not the classical free market, but the various State broadcasting operations in Europe in the earlier days of radio. As in the case of the pirates, there was no central instrumentality of coercion to enforce standards as different countries scrambled for frequency space and ever greater transmitter power. There was only the self-interest of each government, and the simple realization that overlapping frequencies and excessive power in broadcasting were doing more harm, in the long run, than good. Finally, in 1948, the broadcasting nations of the world got together in Copenhagen and worked out a system of frequency and power allocation. Although a majority of the land-based, medium wavelength stations in Europe use frequencies not authorized by the Copenhagen Convention (302 out of 510 when this book was written), and many of the rest use more power than was allocated (thus, incidentally, undercutting claims by onshore governments that the "pirates" were "disrupting the established order" in that band), most nations have continued to appreciate the disadvantages that provoked the Convention, and the situation has remained liveable since 1948. Most likely, the "pirates" would have made similar arrangements among themselves, and, had the governments of the area unbent enough to meet with them, with all users of the radio spectrum.

One thing that disappointed me when I first read this book was that Paul Harris (when he wrote it, a 20-year-old Politics major at Aberdeen University in Scotland, and leader of the campus Young Conservatives) had no direct connection with the offshore radio industry, unless an abortive, though amusing, attempt to set up a "pirate" station near Aberdeen for a couple of weeks to raise money for charity can be be counted. Of course, this can't be held against Harris, but it would be nice to have an "inside" view of things. Perhaps some day O'Rahilly or Bates or some other operator will write memoirs. Lacking any first-hand knowlege, Harris is limited to publishing what is essentially a press review, a summary of the public record, although that's better than nothing.

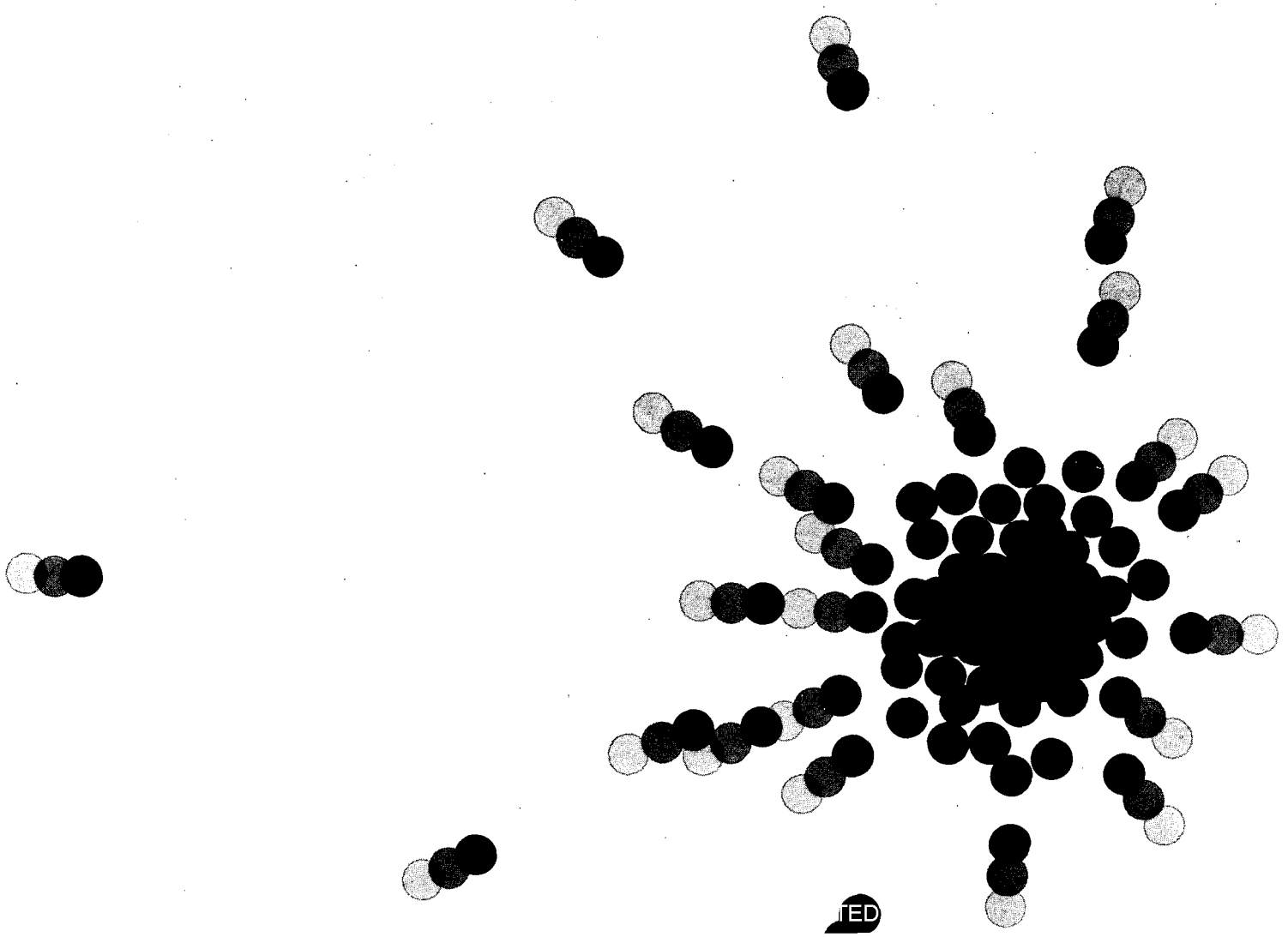
Something, I think, Harris *could* include in future editions without undue effort is a review of the same scope covering non-British-oriented operations, which are barely mentioned here. However, the only really inexcusable omission in this volume is an index. In a compendium of names, dates, places, and figures like this, an index is a must. It's hard to appreciate how helpful one can be until you've spent an hour or so looking for a couple of statistics buried deep in the book. Perhaps some libertarian with plenty of time might approach the publisher or Mr. Harris for a commission to prepare an index for future editions.

All in all, though, *When Pirates Ruled the Waves* is the definitive chronicle of the rise and fall of offshore radio. As such, it is required reading for anyone interested in floating societies or new-country development. It's also a swashbuckling and, at times, uproarious comic/adventure story, and is a good way to introduce non-libertarian friends to the glories and problems of freedom.

Erwin S. "Filthy Pierre" Strauss

BIG BUSINESS AND THE RISE OF AMERICAN STATISM: A REVISIONIST HISTORY

Roy Childs jr.



This essay constitutes a part of what has been called "revisionist history." Revisionist history is a general concept subsuming a great many historical "schools" or integrated conceptions of man's past. At the time when any set of events occurs, in any historical context, there is almost always a specific set of interpretations of events which spreads throughout a given culture, to the relative exclusion of others. Those schools of historiography which are responsible for refuting the popular misconceptions, for *revising* the interpretation of events which was widely accepted, in accordance with *new evidence,* are called revisionists in nature. "Revisionist history," then, is a set of doctrines which are only loosely connected, being a reinterpretation of some aspect of history according to the demands of either (a) new factual evidence, which was not available or suppressed when the conventional interpretations were being promulgated, or (b) new theories.

I want to indicate briefly in this Preface the nature of history, the nature of historical method, and the relationships between history and ideology and history and ethics. I will also briefly indicate my motives for writing this work, my considerations as far as evidence goes, the nature of my source materials, and a few possible motivations for writing such a work which do *not* apply to my case. This is especially important because I do not want the nature of this work to be misunderstood. Therefore, it is my obligation to be explicit about my ends and means.

What is history? In short, it is a selective interpretation or recreation of the events of the past, according to a historian's premises regarding *what is important* and his judgments concerning the *nature of causality* in human action. All historians must make judgments concerning what is important and unimportant in reporting the events of the past, else history would be impossible – it would consist of a random record of chance events all regarded as being on the same level, so that the recording of how some bachelor in Manhattan washed his clothes would be on the same level as the events of America's revolutionary war. These judgments concerning what is important are to the realm of *ideology* what "metaphysical value-judgments" are to the realm of a man's *"sense of life"* (see Ayn Rand's THE ROMANTIC MANIFESTO on the nature of metaphysical value-judgments). In history and ideology, as in an individual's psychology, these judgments can either be made explicitly or implicitly, with full knowledge of what one considers important and why or without such awareness. The same goes for the selectivity of the specific aspects of the past which one chooses to recreate and the specific facts which one chooses to use as representative of that period. Selection, after all presupposes a *means, method,* or *principle* of selection – which may also be implicit or explicit. And the same goes for the historian's view of the nature of causality in human action; it can also be implicit or explicit. All of these important aspects of the art of writing history interact in very complex ways, which I do not have the space to indicate here (but shall in a future essay on the philosophy of history), but the important thing is that a historian is necessarily either aware of these things or he is not. If he is not, then the result is that he is driven by feelings, smuggled-in premises, hidden presuppositions – and faith. If he is not, then the result is a bad historian. Charles A. Beard was more self-conscious about the problems of historical method than most – but he still wrote at the apex of his career, an essay entitled "Written History as an Act of Faith." Of philosophical bankruptcy are bad historians born—as are professionals in so many other fields.

Having indicated at least some of the factors which constitute historical inquiry, let me touch upon the nature of historical *method.* A popular philosophical doctrine holds that the methodology of history is entirely different from the methodology of other sciences. But this is due to the effects of such things as the analytic-synthetic distinction. *Fundamentally,* the methodology of *all* sciences is the same. The fundamental method of all sciences consists simply of *logic* or, to break it up into its components of form and content, *reason* and *objective evidence.* The nature of the objective evidence varies from field to field and this accounts for the apparent differences of method on a fundamental level. By "reason" here I mean simply the faculty of integrated awareness which is responsible for all of man's *knowledge* above the perceptual level; by "objective evidence" I mean *reality as presented to the intellect* – "objective" meaning determined by the nature of entities existing in reality and "evidence" meaning that context or "segment" of reality which a consciousness has become aware of.

The nature of the objective evidence with which we deal in history is simply *human testimony,* direct or indirect. Since history deals with the past of human action, this means that its *object* (referent) is the ends which specific men have held in the past and the means they have adopted to attain these ends. Since no two human beings are specifically alike in every particular, it is impossible in the case of historical inquiry to recreate the past in the form of a laboratory experiment and observe the effects of single causal factors on human action. Thus all that one can do is collect evidence (testimony) concerning the context of various individual men, their ideas, and their actions. Using a theory of the nature of causality in human action, one then *interprets* or selectively reconstructs events of the past, omitting what one rationally judges to be unimportant, and offers an explanation for what one does consider to be important, in light of the evidence available. One can never know *everything* about any set of entities in reality. Yet it is not necessary for one's knowledge to be complete, or for one to be omniscient, in order for one's knowledge as far as it goes – to be *valid.* All knowledge is contextual, including historical knowledge. All that one can do is remain within the bounds of objective evidence and seek to obtain new evidence, revising one's judgments and interpretations as the evidence demands.

Having indicated in brief terms, again, the basic *method* of history, I turn now to its *value*. Many people take conclusions from history concerning conventions and traditions and use these to replace the precepts of a rational ethic as guides for action. Thus, it should be noted at the outset that to use history in any reasonable way to find rules to guide conduct *presupposes* a rational ethic, which one must use to differentiate "good" traditions from "bad," and in fact to supersede history altogether in projecting the *possible* to man. If something *has* happened in history, one can rationally conclude that it *is* possible to man; if something has *not* happened in history, one can *not* rationally conclude that it is *not* possible to man. History can *illustrate* principles but in itself cannot prove their validity or invalidity. It is important to point out the submission of history to a rational ethic in this regard. People distraught with the present often seek refuge in the past,

convinced "of [the regulatory commissions'] necessity . . . for the protection of both the public and the railroads"; he soon converted William H. Vanderbilt to his position.[12]

Agitation for regulation to ease competitive pains increased, and in 1887 the Interstate Commerce-Act was passed. According to the Railway Review, a mouthpiece for the railroads, it was only a first step. The Pennsylvania Railroad stated in its annual report that it had always "favored the enactment of a proper law, which, while guarding the interests of the public, would afford to the railroads the protection to which they are justly entitled in the conduct of their business."[13] Protection from what? Competition.

The Act, however, was a flop at stopping rate wars or rebates. Early in 1889, J. P. Morgan summoned presidents of major western railroads to New York during a prolonged rate war to find ways to maintain rates and enforce the act; a "voluntary" Inter-State Commerce Railway Association (ISCRA) was formed for this purpose, but "voluntary railroad agreements were no more successful with the new law and the intervention of Morgan than before."[14] The larger railroads were harmed most by competiton. "Most of the smaller, minor roads . . . fared a good deal better in the 1890's than the giant roads, and they were more prosperous than in the 1880's. Morgan weakened rather than strengthened many of his roads . . . [and on them] services and safety often declined. Many of Morgan's lines overexpanded into areas where competition was already too great."[15] Competition again increased. The larger roads then led the fight for increased legislation, seeking more power for the ICC.

In 1891, the president of the Minnesota and Northwestern Railroad advocated that the *entire* matter of setting rates and handling railroad stability be turned over to the ICC; "Let the law name the rates and let the law protect their integrity," he proclaimed. Pressure on Congress increased; in 1892, a poll taken by the ICC showed that 14 out of 15 railroads polled favored legalized pooling under Commission control. In 1894, the ICC concentrated the fire of its annual report on "the evils of unlimited power in the carriers to reduce rates."[16] A. A. Walker, who had resigned his seat on the ICC to assume chairmanship of the ISCRA, said that "railroad men had had enough of competition. The phrase 'free competition' sounds well enough as a universal regulator," he said, "but it regulates by the knife."[17]

Another major act was passed in 1906, the Hepburn Act, and it too had railroad support; in PEARSON'S MAGAZINE, Cassatt spoke out as an ardent proponent of the act and said that he had long endorsed federal rate regulation. Even Andrew Carnegie popped up to endorse the Act. George W. Perkins, an important Morgan associate, wrote his boss that the act "is going to work out for the ultimate and great good of the railroads. There is no question but that rebating has been dealt a death blow." But such controls were not enough for some big businessmen. Thus, E. P. Ripley, president of the Sante Fe, suggested what amounted to a Federal Reserve System for the railroads, cheerfully declaring that such a system "would do away with the enormous wastes of the competitive system, and permit business to follow the line of least resistance."[18]

The culmination of this big-business sponsored "reform" of the economic system occured in World War I, when railroad leaders gleefully handed over control of the roads to the government in exchange for guaranteed rate increases and guaranteed profits, something continued under the Transportation Act of 1920. The consequence of this is the situations the railroads face today.

Thus did the railroads gather together in a herd to support the Elkins Anti-Rebating Act of 1903; the fight for it was led by A. J. Cassatt, president of the Pennsylvania Railroad. When it was passed, the RAILROAD GAZETTE declared:" . . . all that will be asked of the commissioners by the public will be that they go ahead and catch every law-breaking rate cutter in the country." In the subsequent era of relative prosperity, the railroad pressure for legislation died down, though such men as Cassatt, James J. Hill, and a few others still favored stronger legislation.

(To be concluded in our next issue.)

1. Ayn Rand, *CAPITALISM: THE UNKNOWN IDEAL* (New York: New American Library, 1966), Chapter 3.
2. *Ibid.*, p. 96.
3. Alan Greenspan, "Antitrust," in Rand, *op. cit.*, p. 59.
4. For a masterly account of this and other related economic matters, see Murray N. Rothbard's synthesis of economics: *MAN, ECONOMY, AND STATE: A Treatise on Economic Principles,* 2 volumes (Princeton: D. Van Nostrand, 1962); especially relevant is Chapter 10, "Monopoly and Competition." See also the innovative follow-up volume to *MAN, ECONOMY, AND STATE,* entitled *POWER AND MARKET:* Government and the Economy (Menlo Park, California: Institute for Humane Studies, 1970). This is the most complete and devastating analysis of government intervention in existence. It should be noted that Rothbard's writings are the *purely laissez-faire* and libertarian works in existence, allowing no compromises or evasions.
5. Gabriel Kolko, *THE TRIUMPH OF CONSERVATISM* (Chicago: Quadrangle Books, 1967), pp. 4-5.
6. James Weinstein, *THE CORPORATE IDEAL IN THE LIBERAL STATE, 1900-1918* (Boston: Beacon Press, 1968). For a superb discussion of the Weinstein book, setting it in historical and historiographical contexts, see the review by Murray N. Rothbard in *RAMPARTS MAGAZINE,* December 1969, pp. 38-40.
7. *Ibid.*, p. ix. For an excellent analysis of the role of ideology in society, see Ludwig von Mises, *HUMAN ACTION* (Chicago: Henry Regnery and Company, 1966), pp. 177-193. On the relationship among the intellectuals in a society, economic "castes," and the state, see the pamphlet "The Anatomy of the State," by Murray N. Rothbard, available from SIL.
8. My major source for this section is Gabriel Kolko, *RAILROADS AND REGULATION, 1877-1916* (Princeton: Princeton University Press, 1965).
9. *Ibid.*, pp. 3-5.
10. See both Kolko books for factual proof of this; for a theoretical explanation, see Rothbard, *MAN, ECONOMY, AND STATE,* Vol. II, pp. 566-585.
11. Koklo, *RAILROADS,* p. 26.
12. *Ibid.*, p. 17.
13. *Ibid.*, p. 45.
14. *Ibid.*, p. 62.
15. *Ibid.*, pp. 65-66.
16. *Ibid.*, p. 70.
17. *Ibid.*, p. 74.
18. *Ibid.*, pp. 215-16.

trends

robert poole, jr

REASON MAKES BIG-TIME

The 10 January edition of the *New York Times Magazine* carried a brilliant cover story entitled "The New Right Credo-Libertarianism," by Stan Lehr and Louis Rossetto. The article outlines the basics of the libertarian philosophy and its origins in the writings of Rand, Hayek, Rothbard, Heinlein, etc. In assessing the periodicals in the field, the article noted that, "The most professional libertarian publication is Reason Magazine, edited by 23-year old graphic designer Lanny Friedlander."

WHO'S PROTECTED BY QUOTAS?

The industries urging most loudly for import quotas during the past year assert that they need protection against lower-priced imports. When questioned about the danger of other governments enacting retaliatory quotas, the same lobbyists make much of the fact that exports account for only 4% of the U.S. gross national product. Nevertheless, a recent economic analysis indicates that there is more to the export picture than is apparent on the surface.

Milton Godfrey, of Cybermatics, Inc., has developed a computer-based imput-output model of the flow of goods in international trade. One of the outputs is the amount of *indirect* exports of products in 16 key industries (an indirect export being the use of a product as a component or ingredient in another product which is then exported). Godgrey's model shows that, on the whole, for every dollar of direct exports there is another dollar of indirect exports. Thus, a significant percentage of the sales that many industries consider "domestic" is actually export sales.

More revealing still are the figures for specific industries. The textile industry, loudest proponent of quota protection, racks up $2.85 in indirect exports for each $1 of direct exports. An example is denim sold to the makers of Levis which are exported. Thus, although the textile industry counts only 5% of its sales as exports, in fact over *19%* of its sales are exports when the indirect exports are included. Thus, the textile makers have far more to fear from retaliatory actions abroad than they realize!

Similar figures exist in many other industries. The oil industry has $4 in indirect exports for every direct $1; the quota-hungry steel industry exports $4.18 in indirects per dollar of direct exports. For aluminum, the figure is around $3 indirect per dollar direct. Because of the many exports containing glass, the glass industry does $1.38 worth of indirect exporting for every export dollar. And so it goes. In the end, though, the joke will not be just on these short-sighted industries – new obstacles to free trade will be felt by everyone, in the form of higher prices and less efficient production. Godfrey's input-output analysis, by making the facts of interventionism more visible, may ultimately succeed in waking people up. It can't happen too soon.

Source: *Forbes* Sept. 1, 1970, p. 35

CRONKITE'S CRISIS

For years libertarians have pointed out the inconsistency between the "freedom of the press" guaranteed the printed media and the FCC's regulation of aural and visual media in the name of the "public convenience and necessity." R.H. Coase's 1959 paper "The Federal Communications" although one of the most thorough examinations of this inconsistency, and of its threat to liberty, has been largely ignored. Certainly, spokesmen for the media have been loathe to bring the subject up, possibly fof fear of retaliation. After all, who wants to risk the Commission's displeasure, and thereby lose his license?

Which makes all the more noteworthy the recent address by CBS's Walter Cronkite, to the 61st national convention of Sigma Delta Chi. Perhaps it has taken the veiled threats of Spiro Agnew and Martha Mitchell to awaken newsmen to the dangers of government regulation, but whatever it is, Cronkite is wide awake. The United States, said Cronkite, faces a communications crisis that "could undermine the foundations of our democracy, which is a free and responsible press." Noting the recent trend toward fewer and fewer newspapers, Cronkite stated that broadcast media can provide a check on printed media "if we are left free to perform that essential journalistic function. The trouble is that we are not free, we are government-licensed."

Noting that "both left and right strangely agree that government control is some magical answer," Cronkite went on to explore the ever-present implications of government control – whatever the rationalizations, and to *call for its removal.* "The power to make us conform is too great to be forever dormant. The axe lies there temptingly for the use of any enraged administration, Republican, Democrat, or Wallacite. We are at the mercy of the whim ofpoliticians and bureaucrats, and whether they choose to chop us down or not, *the mere existence of their power is an intimidating and constraining threat in being."*

We must resist every new attempt at government control, intimidation, or harassment. *And we must fight tenaciously to win through Congress and the courts guarantees that will free us forevermore from the present restrictions."* Brave words from one whose company and industry exjst at the pleasure of the FCC. More noteworthy still from a representative of an industry which has largely upheld and defended the *principle* of government regulation for the "public good" since its inception.

Let's hope other broadcasters get the messagee.

Source: "Possible Communications Crisis Alarms Newsman," UPI, datelined Chicago, Nov. 22, 1970

Reference: "The Federal Comm Comm," R.H. Coase, *The Journal of Law & Economics,* Vol. II, Oct. 1959, pp. 1-40 (available from the University of Chicago Law School, 1111 E. 60th St., Chicago, Ill. 60637).

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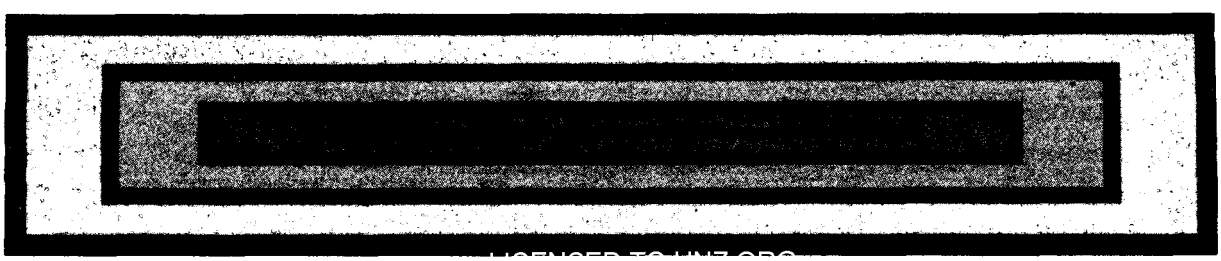

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